

CHAPTER VI.

THE SCOTCH BANKING SYSTEM.

Its General Scope and Results—The Bank of Scotland and the Royal Bank—The Failures of the Ayr Bank, the Western Bank and the City of Glasgow Bank—Advantages of Scotch Banking and its Effect upon the Habits of the People and the Prosperity of the Country—Branch Banks in London and Limited Liability.

THE Scotch system of banks of issue comes nearer to the ideal of successful free banking than that of any other country. Absolute freedom in note issues reigned for over one hundred years in Scotland, and during eighty years of that period general distrust of the banking system never occurred, small notes became the favorite medium of exchange among the people, and the deposits in the banks absorbed almost the entire savings of rich and poor and brought within the circle of active producing capital the entire accumulations of the country. Such defects as were disclosed in the early years of Scotch banking were corrected with experience, and the few departures which have taken place from sound principles have been such as to suggest no change in the established practice of the majority of Scotch banks, but, at the most, some official regulation which should hold all to the rules voluntarily adopted by the oldest banks and the soundest bankers. The mania for restricting note issues which swept over the British Parliament in 1844 shut the circulation of the Scotch banks within fixed legal limits, and limited the banks of issue to those already in existence, but left untouched their power to issue small notes and their means of accommodating the people of Scotland by receiving deposits.